GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:843
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MECHANISM TO ASSESS NPA OF BANKS
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Will the Minister of FINANCE be pleased to state:

a. whether the rating agencies CRISIL and FITCH have estimated independently that the Non-Performing Assets (NPAs) of public sector banks are actually double the estimates worked out by Indian Banks Association (IBA);

b. whether according to CRISIL/ FITCH estimates, the combined NPAs of the public sector banks have now crossed Rs.1,30,000 crore;

c. if so, the norms adopted by banks/ financial institutions to declare any loan as bad loan;

d. whether the Reserve Bank of India has any mechanism in place to assess the extent of NPAs of banks independently; and

e. if so, the details thereof and if not the reasons therefore ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a) & (b): CRISIL have estimated that the gross NPAs of Scheduled Commercial Banks (SCBs) as on 31st March, 2002 were Rs. 1,30,000/- crores. However, as per RBI, the gross Non Performing Assets (NPAs) of Scheduled Commercial Banks (SCBs) on the same date were Rs. 70903.63 crores (10.41% of gross advances). FITCH ratings have estimated that the net NPAs of SCBs would go up from 5.5% of net advances as on 31st March, 2002 to 11.5% of net advances, if 90 day norm is adopted instead of 180 day norm being used now. However, the estimates made by the rating agencies do not reflect the factual position, as these agencies have done the estimation of NPAs on the basis of a sample and extrapolating the results to the entire system. CRISIL has applied a multiple to the reported gross NPAs in the Priority Sector `based onits understanding of the portfolios` profile` to arrive at the estimate of gross NPAs in the Priority Sector. For non Priority Sector`s loans CRISIL has classified the top 100 borrowers of a Bank into different rating categories, used the resultant rating distribution and their default probability statistics to estimate the weak assets in non Priority Sector`s loans portfolios. FITCH have reckoned assets which are `performing assets` as per the RBI guidelines as `deemed non performing` and added these to the reported NPAs.

(c): Non Performing Assets (NPAs) is a credit facility in respect of which the instalment of principal and/or interest remained overdue for a period of more than 180 days. With a view to move towards international best practices, it has been decided to adopt the `90 days overdue` norm for the year ending 31st March, 2004. In the case of financial institutions, a credit facility is classified as non-performing if interest is overdue for more than 180 days and/or the principal is overdue for more than 365 days. Banks are required to classify non-performing assets further into the three categories i.e Sub-standard Assets, Doubtful Assets & Loss Assets based on the period for which the asset has remained non-performing and the realisability of the dues and make provision according to levels prescribed by Reserve Bank.

(d) & (e) : Reserve Bank of India (RBI) has a mechanism in place to assess the extent of NPAs of individual Banks. RBI`s assessment is aimed to ensure that the banks have correctly classified the loans assets and provisioning is done as per the prudential norms prescribed by it. Any discrepancy observed in this regard or omission of any NPA is brought out in the Annual financial Inspection (AFI) report. Banks submit the position regarding the level of NPAs in their off-site returns to RBI. The movement of NPAs is also reflected in the Annual Report as a disclosure in the Notes on Accounts to the balance sheets.